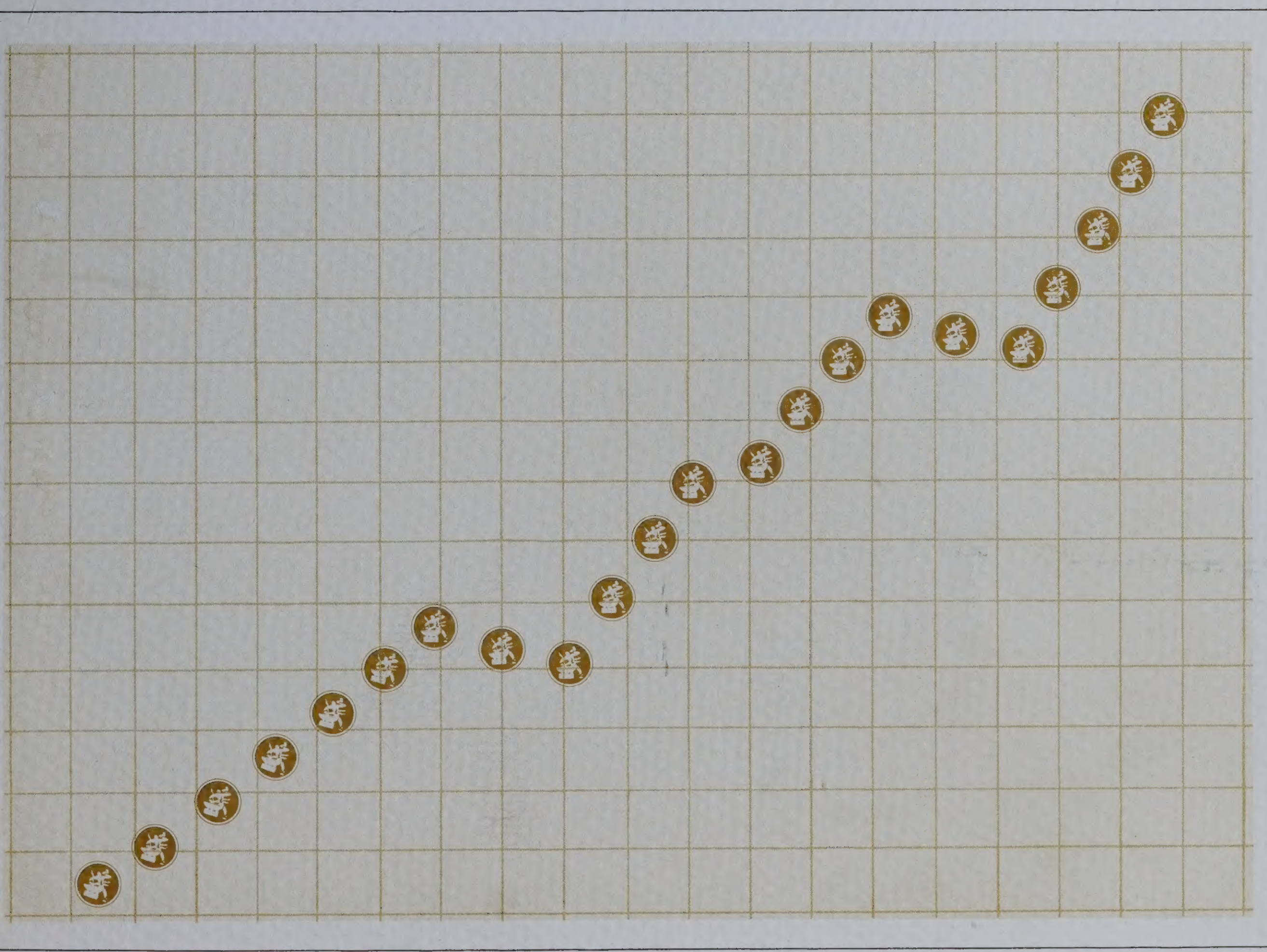
File under R

Hugh
Russel
Ltd.

1975



Index

(Vous pouvez obtenir un rapport en français sur demande)

Highlights

	1975	1974
Net Sales	**$199,298,000**	$262,800,000
Net Earnings	**$ 4,754,000**	$ 15,663,000
Earnings per Share Fully diluted	**$1.83**	$6.05
Cash Flow per Share Fully diluted	**$2.61**	$6.53
Capital Employed at Year End	**$ 69,689,000**	$ 52,513,000
Earnings to Average Capital Employed	**8 per cent**	36 per cent
Capital Expenditures	**$ 2,107,000**	$ 3,539,000
Five-year Average Annual Rate of Growth in Earnings per Share	**32 per cent**	111 per cent
Total Employees	**2,192**	1,717
Total Common Shareholders	**2,481**	2,209
Shares Held by Canadian Residents	**99 per cent**	99 per cent
Total Dividends Paid	**$ 1,306,000**	$ 1,036,000

The Lacroix Inc. distribution centre in Boucherville, Que.

Letter to Shareholders

Hugh Russel Limited is an organization engaged primarily in the distribution of manufactured products to the industrial buyer and to the retail merchant.

Russel's expertise lies in the management and marketing of large diversified inventories. This management skill is applicable to a vast array of industrial and consumer oriented products and we believe that opportunities for diversification within this proven field of experience, in practical terms, present an unlimited scope for future development.

The Corporation is organizationally structured into four functional divisions, operated by senior executives with long, successful experience in their particular field. This brings the strongest possible specialized management focus to bear on marketing and growth programs. Separate sections have been included in this report to provide the reader with an understanding of the scope and results of each of the divisions.

An objective of the Corporation over the years has been to develop a balanced activity, capable of countering the peaks and valleys inherent in a single product enterprise.

To achieve this goal, management has sought to increase the diversity of services and products handled so as to attract a growing number and variety of customers in varying marketing areas. The continuing success of this effort will positively influence the quality and pattern of future earnings.

Considerable progress was made in this regard in 1975 by the addition of three major distribution companies to the Home Products Distribution Division.

Lacroix Inc. is one of the largest distributors of plumbing, heating and hardware supplies in the Province of Quebec. Lytle Engineering Specialties Limited is a major Canadian distributor of industrial valves and high technology fluid measuring devices. The Inland Group of Companies are distributors of sporting goods in the Province of British Columbia. With combined annual sales volume exceeding $75 million, these companies importantly extend the Corporation's product range and markets served.

The experienced people who have joined Russel through these new corporate partners will add to our growing management resources and consequently to our ability to take on future growth and responsibility.

The December 31, 1975 balance sheet reflects these most recent investments, as well as the placing of a Series D debenture issue in May of 1975. It will be observed that major expansion has taken place in the Corporation's earning capacity while still retaining a historically conservative capital structure.

In the view of management, the diversified thrust of our expansion activities has important implications for investors. First, by developing a strong market base across a diversified product range, the company becomes less susceptible to economic swings and market conditions bearing on a single product group. Second, with Russel's emerging multi-point and multi-product enterprise, opportunities for both internally generated and acquired growth are significantly enhanced.

The outlook for the near term is clouded somewhat by the continuing uncertainties surrounding the performance of the Canadian economy in a climate of government controls. Notwithstanding this, we anticipate results in 1976 consistent with the Corporation's long-term growth trend. In addition, we expect that further opportunities to make sound investments will emerge during the year.

Over 2,000 men and women in our various companies have contributed to the Corporation's progress during 1975. On behalf of the shareholders, the Directors wish to record their appreciation and thanks to all employees for their dedication and efforts over the past months, and extend a warm welcome to those who have joined us through our new companies.

A. D. Russel
Chairman and
Chief Executive Officer

J. P. Foster
President

Toronto
March 12, 1976

Performance Review

Chart 1 Consolidated Sales

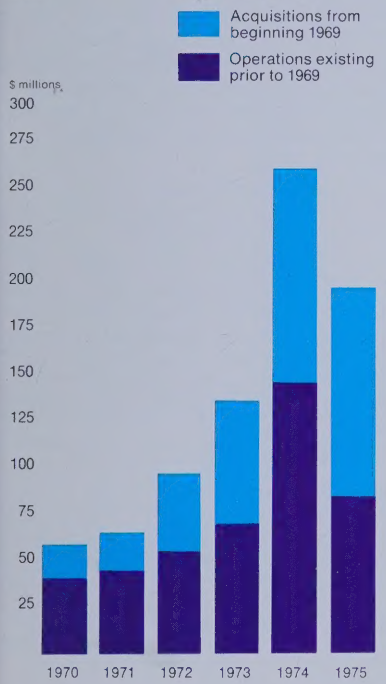


Chart 2 Sales Analysis by Division

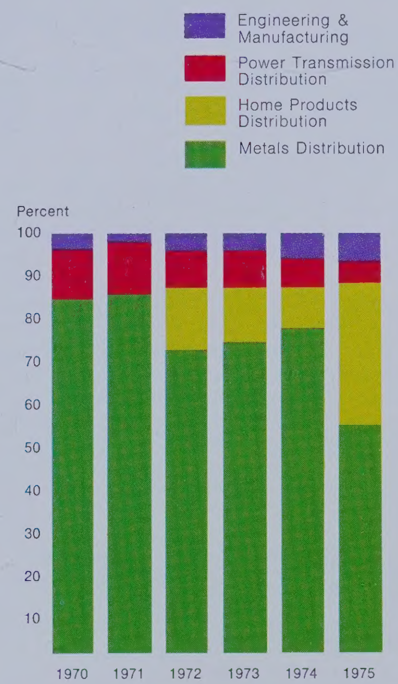


Chart 3 Net Earnings

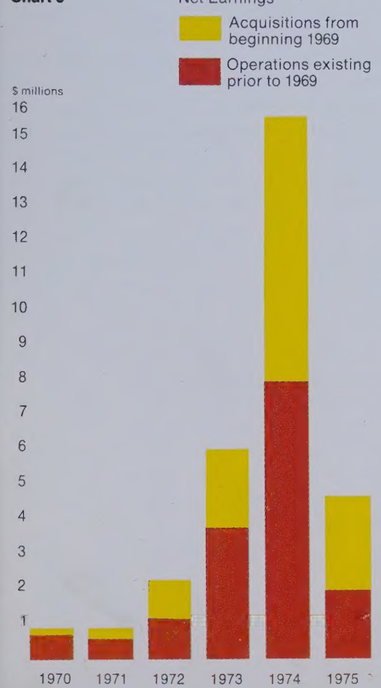
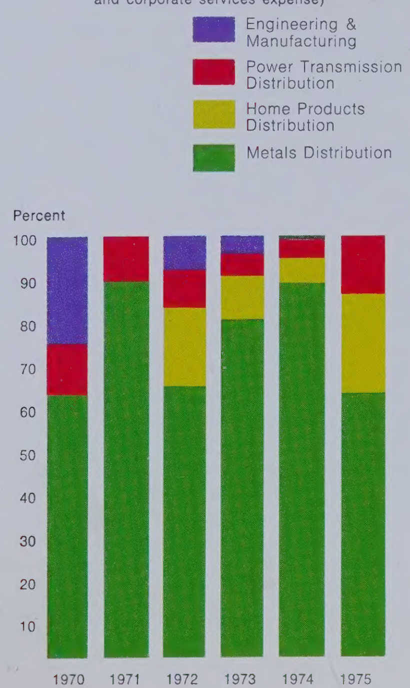


Chart 4 Operating Profits Analysis by Division
(Earnings before income taxes, depreciation and corporate services expense)



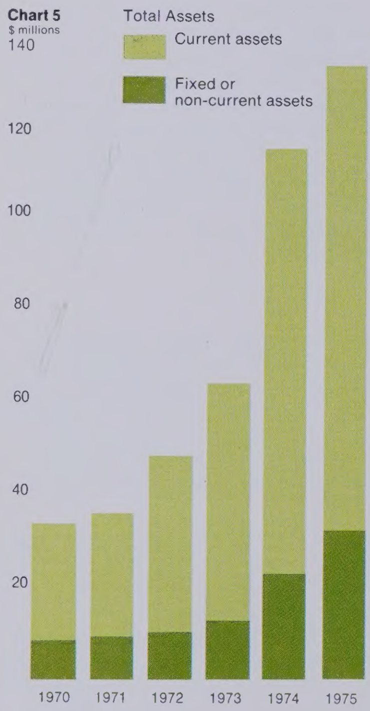
The Corporation's operations in 1975 were conducted against a background of general weakness in most sectors of the Canadian economy. The downturn in economic activity resulted in declining demand for most of the Corporation's product lines and extremely competitive conditions. In view of the unfavourable climate, performance in all areas of the organization was encouraging relative to historic results and our objectives.

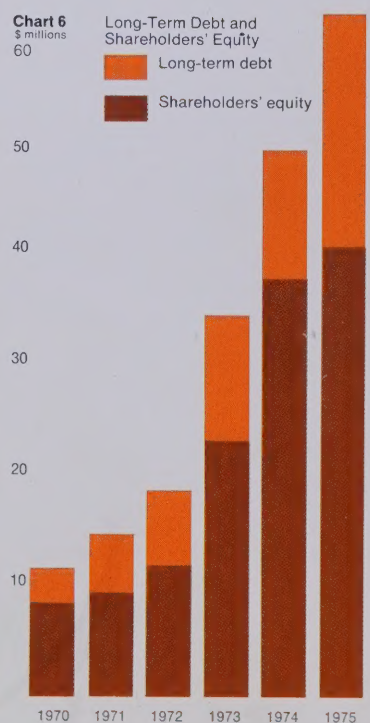
Sales

On a consolidated basis, net sales of $199.3 million represented the second highest sales level in the Corporation's history. A comparison with the $262.8 million reported for 1974 reflects a return to more normal market conditions and the effect on dollar sales of lower world market prices in some product areas.

Approximately 60 per cent of 1975 sales originated with companies purchased since the beginning of 1969, the effective implementation date of the current expansion program. Chart 1 illustrates the relative contribution made to sales by internal expansion and by acquisition activities. Underlining the priority attached to internally generated growth, sales by operating companies in the Corporation prior to 1969 have increased from $46 million in 1969 to $80 million over the six-year period; an average annual compound rate of growth achieved through internal expansion of four per cent.

Chart 2 illustrates the increasingly diversified nature of our distribution operations. Up to this time in the Corporation's history, the steel service centre operations have accounted for the major portion of consolidated sales. As a result of a combination of internal expansion and investments in new markets, the companies which now comprise the Metals Distribution Division represent one of the largest and fastest-growing, independent steel service centre organizations in North America. Growth in the Corporation's newer operating Divisions has been equally dramatic, accounting for 45 per cent of 1975 volume. The Home Products Distribution Division, by virtue of the investments made during 1975, is now comparable in size to the Metals Distribution Division with annual sales in excess of $125 million.





	Sales ($000)		
Division	**1975**	1974	1973
Metals Distribution	**109,645**	200,446	96,468
Home Products Distribution	**61,564**	36,307	20,383
Power Transmission Distribution	**13,757**	12,435	9,626
Engineering and Manufacturing	**14,332**	13,612	3,914
TOTAL	**199,298**	262,800	130,391

	Operating Profits (Per Cent)		
Division	**1975**	1974	1973
Metals Distribution	**66.0**	90.6	82.8
Home Products Distribution	**25.2**	6.1	10.2
Power Transmission Distribution	**9.4**	2.6	4.1
Engineering and Manufacturing	**(0.6)**	0.7	2.9
TOTAL	**100.0**	100.0	100.0

Earnings

Consolidated net earnings for 1975 were $4.8 million, maintaining an average compound rate of growth exceeding 16 per cent per year over the last ten years.

Earnings in 1975 reflect a more normal market condition than does the $15.7 million recorded in 1974. Earnings reported for 1975 are of a better quality, relatively free of the influence of the spectacular rises in industrial prices experienced in the previous periods. As pointed out in the 1974 Annual Report, a substantial portion of that year's earnings were attributable to price inflation. Because these "profits" were required to replace inventory at higher prices, they were not available to the Corporation in the normal way.

In 1974, many companies were forced by the existing accounting and tax regulations to record illusory inventory profits which were taxed at full corporate rates. It is our belief that such taxation can adversely affect the economy of the country in the following ways: it creates an erosion of the capital base of the private sector; it causes increased demands on an already overburdened capital market; and it feeds the inflationary spiral and reduces employment opportunities.

While the impact of inflationary profits was much less severe for the Corporation in 1975, the problem of inappropriate taxation remains unresolved and demands urgent government action.

When viewed against historic norms, 1975 earnings maintained the trend of our longer term growth. Earnings in relation to sales were 2.38 per cent, versus a ten-year average of 2.4 per cent. Return on average common shareholders' equity at 12.1 per cent was below the ten-year average of 20.0 per cent.

Results by Quarter

	Sales ($000's)				
Quarter	**1975**	1974	1973	1972	1971
1	**48,088**	54,235	25,584	19,077	14,164
2	**47,763**	66,723	33,817	25,050	18,166
3	**43,139**	67,748	34,406	27,187	17,414
4	**60,308**	74,094	36,584	27,792	17,606
TOTAL	**199,298**	262,800	130,391	99,106	67,350

	Earnings per Common Share (Fully-diluted)				
Quarter	**1975**	1974	1973	1972	1971
1	**0.55**	1.61	0.27	0.16	0.01
2	**0.32**	1.97	0.58	0.28	0.13
3	**0.43**	1.57	0.67	0.34	0.16
4	**0.53**	0.90	0.83	0.39	0.19
TOTAL	**1.83**	6.05	2.35	1.17	0.49

Charts 3 and 4 demonstrate the impact of the Corporation's expansion and diversification program on earnings over the past several years. Paralleling the results achieved in sales, the Corporation's present earnings are derived on a roughly equal basis from internally generated and acquired operations. Some 16 per cent of 1975 earnings was contributed by companies purchased during the year, although results for both Lacroix Inc. and Lytle Engineering Specialties Limited were included in consolidated earnings only for the fourth quarter.

The increasing diversification of earnings is evident in Chart 4. Historically, the steel distribution operations have been the principal source of the Corporation's earnings, accounting for more than 80 per cent of total income in both 1973 and 1974. As the chart shows, the pattern changed in 1975, with more than 34 per cent of operating profits coming from activities other than steel distribution. This pattern will continue into 1976 and beyond, with the Corporation's earnings being distributed over a broader base of activity.

Chart 7

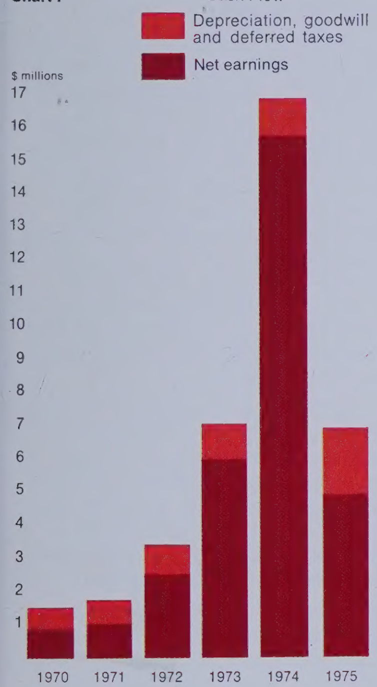
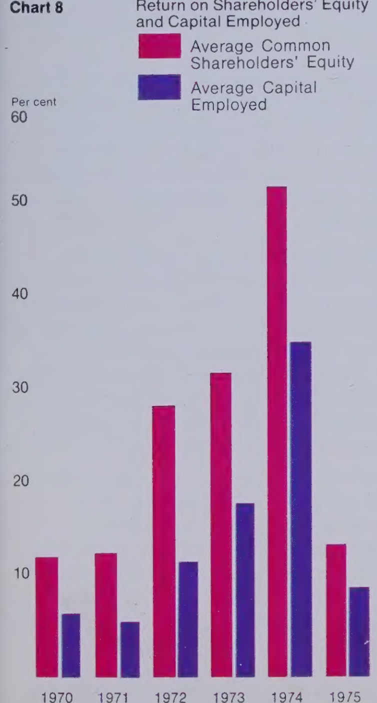


Chart 8



Dividends

The Russel dividend policy is to maintain a regular payment to shareholders which increases in step with progress in the sustainable earning power of the Corporation. Through this policy, the Corporation seeks to provide investors with a degree of certainty with respect to their present and future dividend income. During 1975, the annual dividend payable on the common shares was raised to 52 cents per share. This was the seventh dividend increase in a period of less than three years, more than doubling the annual dividend rate from 20 cents in 1972 to the current 52 cents. Of specific interest to shareholders, it would appear that the dividend policy followed by Russel is consistent with the Federal Government's anti-inflation guidelines and it is our understanding that we will be able to continue that policy during this period of restraint.

Assets

The strength of the Corporation's financial resources is illustrated in Chart 5, which shows growth in assets over the last six years. At year-end, total assets stood at $137 million, an increase of 19 per cent over the $116 million in assets at the end of 1974, and an increase of $115 million since the beginning of 1970.

Inventories

All elements of the Corporation began 1975 with well controlled inventory positions, which were maintained at the lowest possible level consistent with sales volume throughout the year. At year-end, all inventories — including those of businesses purchased during the year — were in a sound position in terms of the number of days' sales supplies held in stock. The balance sheet value assigned to inventories is the lower of cost and net realizable value.

Financial Position

The Corporation continues to be in a sound and liquid financial position as shown in Charts 6 - 8. Cash flow in 1975 was $6.8 million, compared to $16.9 million in 1974, reflecting the lower sales volume in 1975 and illusory inventory profits in the previous year. Working capital was up sharply at $37 million, compared to $29 million at the end of 1974. The Corporation presently has bank lines of over $62 million, of which more than 40 per cent was unused at year-end.

The ratio of shareholders' equity to long-term debt at the end of 1975 was 1.9:1, which includes $10 million of new financing raised during 1975 through the issue of the Series D, 11 per cent Sinking Fund Debentures.

Shareholders' Equity

Shareholders' equity in the Corporation increased by $3.5 million during 1975 to $41.3 million. The First Preferred Shares, Series "A" still outstanding at November 30, 1975 were redeemed by the Corporation, retiring the preferred shares from Russel's issued capital.

Federal Anti-Inflation Measures

The imposition of wage and price controls by the Federal Government in October, 1975, was probably essential to our regaining control of the economy. Whether the specific program implemented by Ottawa proves successful, only time will tell. Hopefully, with the support of the majority of the population the program can be made to work, although it is most complex and will be difficult and costly to administer. We believe our economy can work best with a minimum of government regulation. We look forward to the withdrawal of controls at the earliest possible moment.

To the extent that wage and price guidelines work to improve the Canadian economy, they will be beneficial to the Corporation and it is our intention to cooperate fully with the government program. In general terms, the Corporation's operating practices are such that we expect to be able to conduct our businesses in much the same way as in the past.

Corporate Philosophy and Management Organization

The degree of success achieved by a business organization is determined in large part by its ability to sense the needs of the marketplace and develop the means to fulfill those needs. This simple fact of business life has been the mainspring of Russel's growth and development throughout the Corporation's history.

From its original business as a warehouse supplier of steel products, the Corporation expanded nationally to provide a comprehensive product range and processing service for customers in all parts of the country. In recent years, the Corporation's experience and skills in distribution, and its ability to bring together and organize smaller companies into larger, cooperative and efficient operations, have been extended into new product areas.

Through this process of evolution and innovation Russel has developed large-scale distribution activities across a diversified product range. It has also developed a particular approach to the management of these activities designed to encourage the entrepreneurial skills of operating executives.

The Russel concept of management organization is based on maximizing opportunities for individual creativity through what might be called a multi-point enterprise; that is, a number of decentralized, operationally-independent and accountable business units operating with a common corporate philosophy and objectives.

In this management concept, broad responsibility and authority for action is delegated to operating executives, with only certain specific functions reserved for the central corporate management. The parent company is not directly involved in matters pertaining to routine operations, its primary function being to formulate and review corporate policy and development planning. Specific responsibilities of the parent company include corporate financial management, corporate policy and objectives, the review and study of performance results, research and negotiation relating to the creation or acquisition of new businesses, and specialized staff support requested by operating units.

The operational organization is composed of four separate divisions covering activities in the Corporation's main product areas. Division management has exclusive responsibility for operating policy in its product area. Unlike the conventional management structure, however, Russel division executives do not exercise direct day-to-day line authority over managements of operating units; the relationship is in the nature of providing advice and counsel as informed directors of the operating company.

Each division and operating unit within a division is viewed as a growth and profit centre and, to this end, organizes its activities with reference to the financial and investment objectives of the Corporation as a whole. Drawing on specialized knowledge of their product field, for example, division executives are responsible for searching out and developing opportunities for growth and expansion, including purchases of new companies. The division function also includes the establishment of cooperative buying groups where cost and competitive advantages can be gained for the operating companies.

Through the clear separation of responsibility achieved at the various levels, an extremely high degree of flexibility and scope for independent initiative is secured for operating managements, enabling them to organize their activities in the manner most consistent with conditions and needs in the particular markets they serve.

The Russel management structure illustrates three main characteristics of the organization. First, Russel consists of people with successful records as entrepreneurs in their own right; the Corporation is therefore organized to provide the maximum possible opportunity for these people to exercise their creativity and entrepreneurial talent.

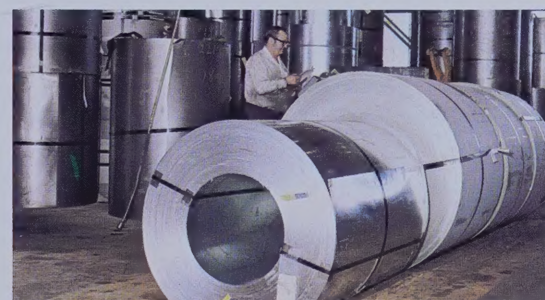
Second, a detailed knowledge of the needs and opportunities of the marketplace is an essential factor in distribution operations; Russel is organized to ensure that operating decisions are made to the fullest extent by executives responsible for particular markets.

Third, the interaction between executives and companies engaged in similar business endeavours presents many opportunities for cooperative and coordinated action; the Russel management structure provides for this interaction, but avoids the potential disruption that may occur in a local market situation from a rigid line organization, directed by a centralized management.

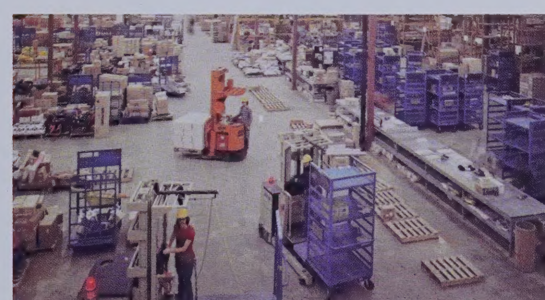
The underlying objective of all Russel growth programs is to strengthen and expand the scope of the Corporation's marketing organization, because earnings in an efficient distribution operation are directly related to sales volume and market position. The Russel concept of management organization is designed to gain that objective by creating an atmosphere and environment conducive to innovation and initiative within each operating unit.

Review of Operating Divisions

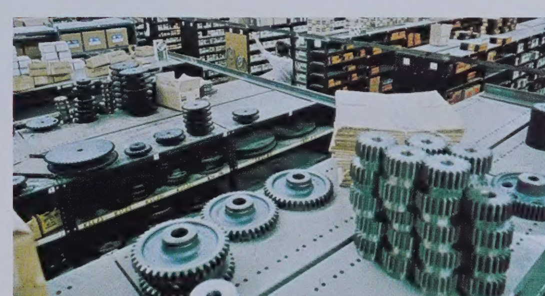
Metals Distribution Division



Home Products Distribution Division



Power Transmission Distribution Division



Engineering and Manufacturing Division

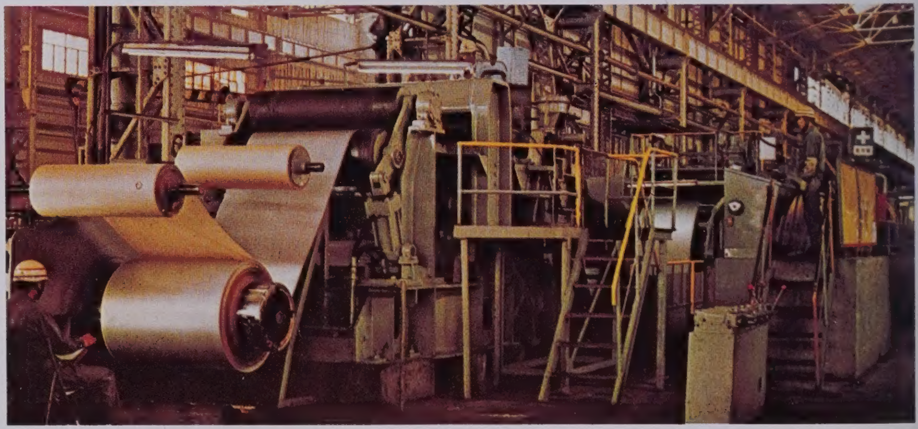
Metals Distribution Division

The Metals Distribution Division, with its three operating units — Russelsteel Ltd., Vincent Steel & Service Limited, and St. Laurent Steel Ltd. — is one of the largest national steel service centre organizations in Canada. The Division specializes in the supply of a comprehensive range of carbon and stainless steel products used by industry in manufacturing and maintenance. The Division's many customers include some of the country's largest industrial corporations as well as small, regionally-oriented metal-working firms.

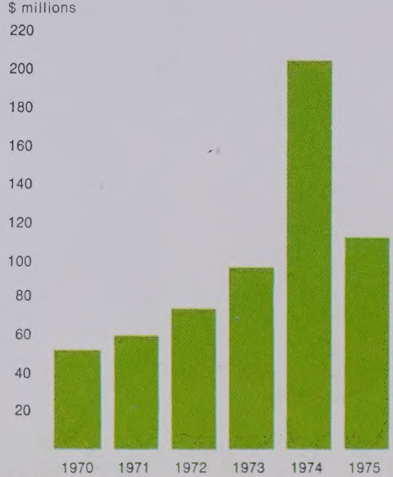
Each of the eleven steel service centre plants operated by the Division is equipped with modern facilities and handling equipment to accommodate customers requiring pre-production processing to custom specifications.

During 1975, the operational focus in the Division was centred on consolidating its market position following the unusually high demand experienced in late 1973 and the greater part of 1974. With the return to more normal market conditions, the Division recorded sales of $109.6 million for 1975. An over-supply of steel at the world market level throughout the year had a significant downward effect on prices — influencing the dollar value of both sales and profits.

During the year, a strong emphasis was placed on developing new avenues for growth, particularly in United States markets. The Division has a team of senior executives with full time responsibility for this activity and research is going forward on a number of specific expansion opportunities.



Metals Distribution Division
Sales Summary



Home Products Distribution Division

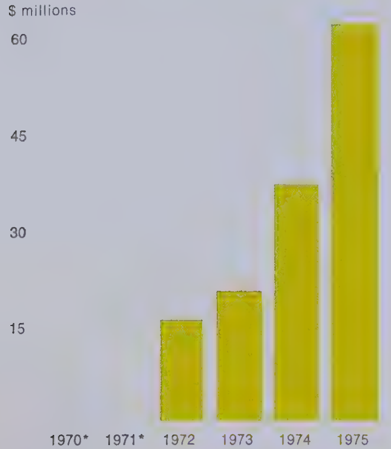
The Home Products Distribution Division specializes in the wholesale supply of a wide range of materials, equipment and tools used in residential and commercial construction. In addition, the Division is a supplier of home hardware products and appliances, leisure and sporting goods, and specialized valves. As an extension of its wholesale activities, the Division also operates a number of retail home centres in Quebec and the Atlantic Provinces.

The Home Products Distribution Division experienced dramatic growth during 1975, with sales reaching $61.6 million, an increase of 70 per cent over the $36.3 million recorded in 1974. As an illustration of the progress achieved in this product area, it should be noted that since 1972 — the Division's first full year of operations — sales have increased some four-fold.

The longer range goal of the Home Products Distribution Division is to develop national scale operations in each of its principal product groupings. The major additions to the Division's activities in 1975 brought significant progress in achieving that goal. The Division has expanded to become a dominant factor in Eastern Canadian markets and has established a firm position in other desirable markets for further expansion; additional specialized management talent has joined the Division in a number of key product areas; and new and compatible product lines, with an inherent growth potential, have been added to broaden the Division's operating base.

At the end of the year, an agreement was reached to purchase all the outstanding shares of Walter Woods Limited, a major distributor of hardware, electrical and plumbing supplies with headquarters in Winnipeg. This latest connection adds another link in the national Home Products Distribution chain and provides access to the important markets from Ontario to the West Coast.

Home Products Distribution Division
Sales Summary



*Distribution activities in this product area were established in 1972.

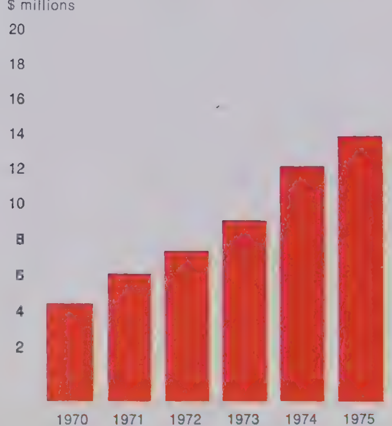
Power Transmission Distribution Division

The Power Transmission Distribution Division is the largest wholesale supplier of replacement bearings and mechanical power transmission components and accessories in Canada, serving more than 10,000 industrial customers in Quebec and Ontario.

With 1975 sales of $13.8 million, the Division experienced a record year, despite the generally lower level of industrial activity. The Division's strong performance resulted from an increased emphasis on developing new business, including expansion into markets not previously served directly.

Two new branches were opened during the year — at Brantford, Ontario, and Valleyfield, Quebec — bringing the branch network to a total of 14 service outlets. The central warehouse facilities at Malton, Ontario, were completely redesigned and extended in 1975, more than doubling the existing storage capacity and achieving important efficiencies in the control of inventories.

Power Transmission Distribution Division
Sales Summary



A computerized inventory record system maintains the flow of all items through the central warehouse and branches, compiling data which facilitates a high degree of accuracy and control in purchasing, sales and inventory.

A major new product line of hydraulic and pneumatic power transmission components was added during the year, as part of a continuing program to expand the Division's marketing base and to penetrate new markets.

Engineering and Manufacturing Division

The Engineering and Manufacturing Division designs and produces wire processing machinery used in the electrical energy transmission, telecommunications and wire rope industries. A leader in this particular field of technology, many of the Division's products are of original design to meet a customer's particular operating specifications, or increase productivity.

In the past several years, the Division has expanded its production capacity, with plants located as close as possible to the markets served. The Division now has manufacturing plants in Canada, Mexico and Brazil, and two plants in the United States.

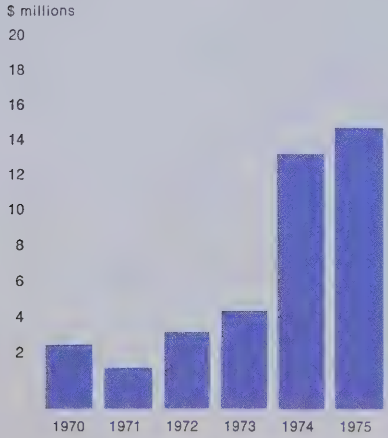
Sales in 1975 of $14.3 million showed a slight increase over the previous year despite difficult market conditions resulting from the general economic slowdown in Canada and the U.S. The Division was particularly affected by the decrease in capital spending in the telecommunications and housing sectors, both heavy users of wire and cable which, in turn, resulted in a postponement of expansion or re-equipment programs by the Division's customers at the manufacturing level.

Start-up costs were satisfactorily absorbed in the new Erie, Pennsylvania plant in the United States. Before the end of the year, Erie had successfully completed two major contracts, valued at more than $1.5 million — one contract for the Kaiser Aluminum Chemical Corporation and the other for the Reynolds Aluminum Company. Both contracts involved the design and construction of large tubular stranding lines, incorporating a number of technical improvements new to this type of equipment.

The Syncro Machine Company operation in New Jersey, which was acquired in 1973, has now been satisfactorily turned around and operated on a profitable basis in 1975.

At the year end the Engineering and Manufacturing Division had orders on hand totalling more than $8 million. Prospects for new business in the United States appear favourable. The market for equipment in Mexico and Brazil should be excellent, particularly in Brazil, where a major plant expansion is under consideration.

Engineering and Manufacturing Division
Sales Summary



HUGH RUSSEL LIMITED
AND SUBSIDIARY COMPANIES

Marketing Organization

	Product Areas	Marketing Identities
Metals Distribution Division	Carbon and stainless steel products Custom pre-processing	Russelsteel Vincent Steel & Service St. Laurent Steel
Home Products Distribution Division	Plumbing and heating supplies Specialized valve products Electrical supplies Building materials and supplies Hardware supplies Sporting goods Janitorial supplies	The Sumner Company T. P. Calkin Calkin Building Supplies Emerson & Fisher Moncton Hardware Halliday Craftsmen Boone Plumbing Supply Pacific Sports Inland Sports Kentville Sports Lytle Engineering Lacroix J. L. Demers Quincaillerie Québecoise Jos. E. Lemieux J. S. Parkes A. Prud'Homme & Fils Boily & Cie Inland Distributors Kentville Hardware Kentville Roofers Middleton Hardware
Power Transmission Distribution Division	Industrial bearings Mechanical, electrical, hydraulic and pneumatic power transmission components Industrial lubricants	Canadian Bearings Motioneering
Engineering and Manufacturing Division	Equipment used in "wire and cable" and "steel wire rope" industries including: Tubular and rigid frame stranders. Telephone stranding and cabling production lines. High speed breakdown, intermediate and fine wire drawing machines.	Ceeco (Canada) Ceeco (U.S.) Syncro Machine (U.S.) Ceeco (Brazil) Dicomasa (Mexico)

Distribution and Plant Facilities

Steel Service Centres

Quebec
Montreal
St. Laurent

Ontario
Toronto
Etobicoke
Hamilton

Manitoba
Winnipeg

Saskatchewan
Regina
Saskatoon

Alberta
Calgary
Edmonton

British Columbia
Vancouver

Wholesale Building Supply Outlets

Nova Scotia
Halifax
Bridgewater
Dartmouth
Kentville (2)
Middleton
Stellarton

New Brunswick
Moncton (4)
Saint John (2)
Fredericton
Campbelton

P.E.I.
Charlottetown

Quebec
Hull
Levis
Boucherville
Ste-Foy
Alma
Rimouski

Ontario
Ottawa

Retail Home Centres

Nova Scotia
Kentville (2)
Middleton
Halifax
Springhill
Truro
Dartmouth
New Glasgow

New Brunswick
Moncton (3)

Quebec
Charlesbourg
Montreal

Manufacturing Facilities

Nova Scotia
Truro
Debert

Specialty Valve Supply Outlets

Nova Scotia
Halifax

Quebec
Montreal

Ontario
Sarnia
Toronto

Manitoba
Winnipeg

Wholesale Sporting Goods Outlets

British Columbia
Vancouver
Kamloops
Nelson

Service Branches

Ontario
Malton
Scarborough
Toronto
Peterborough
North Bay
Hamilton
St. Catharines
Windsor
Kitchener
Barrie
Kingston
Brantford

Quebec
Montreal
Valleyfield

Manufacturing Plants

Canada
Toronto, Ontario

United States
Erie, Pennsylvania
Perth Amboy, New Jersey

Mexico
Mexico City

Brazil
Sao Paulo

Consolidated Financial Information

Ten Year Summary

For Canadian capital gains tax purposes, the Valuation Day value of Hugh Russel Limited shares on December 22, 1971, as established by the Department of National Revenue, was $4.50.

	1975	1974
Operating Results (thousands)		
Net Sales	$199,298	$262,800
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	$ 13,418	$ 34,198
Depreciation	$ 1,531	$ 1,228
Interest on long-term debt	$ 1,889	$ 1,026
Income taxes	$ 5,228	$ 16,281
Minority interest	—	—
Amortization of premiums on acquisition	$ 16	—
Net earnings(1)	$ 4,754	$ 15,663
Operating Statistics(1)		
% Net earnings to net sales	2.4%	6.0%
% Net earnings to average common shareholders' equity	12.1%	52.5%
% Net earnings to average capital employed	7.8%	35.5%
Per Share of Common Stock(1)		
(Adjusted to reflect stock splits)		
Based on average common shares outstanding (thousands)	2,574	2,502
Net earnings (after preferred dividends)	$ 1.84	$ 6.25
Cash flow	$ 2.61	$ 6.76
Book value	$ 15.92	$ 14.79
Market price — High	$ 15.13	$ 21.00
Market price — Low	$ 9.75	$ 11.88
Net earnings — Fully diluted	$ 1.83	$ 6.05
Financial Ratios and Other Statistics		
Current assets/current liabilities (ratio)	1.6:1	1.5:1
Shareholders' equity/long-term debt (ratio)	1.9:1	3.2:1
Total assets/long-term debt (ratio)	6.2:1	9.6:1
Income available for long-term debt interest/long-term debt interest	6.3:1	32.1:1
Sales/capital employed (ratio)	2.9:1	5.0:1
Current assets/total assets (ratio)	.76:1	.80:1
Additions to facilities (thousands)	$ 2,107	$ 3,539
Total dividends paid (thousands)	$ 1,306	$ 1,036
Number of common shareholders	2,481	2,209
Number of shares traded (thousands)	428	976
Balance Sheet Data (thousands)		
Current assets	$104,680	$ 91,997
Current liabilities	$ 67,733	$ 62,958
Working capital	$ 36,947	$ 29,039
Net fixed assets	$ 20,330	$ 12,774
Long-term debt	$ 21,738	$ 11,665
Shareholders' equity	$ 41,257	$ 37,790
Capital employed	$ 69,689	$ 52,513
Total assets	$137,422	$115,471

(1) In 1972 based on earnings before extraordinary items

1973	1972	1971	1970	1969	1968	1967	1966
$130,391	$ 99,106	$ 67,350	$ 61,113	$ 49,819	$ 38,375	$ 32,473	$ 24,157
$ 13,887	$ 5,838	$ 2,967	$ 2,670	$ 2,413	$ 1,435	$ 1,210	$ 1,354
$ 864	$ 738	$ 604	$ 513	$ 310	$ 287	$ 245	$ 205
$ 986	$ 526	$ 359	$ 179	$ 148	$ 150	$ 153	$ 156
$ 5,969	$ 2,182	$ 1,006	$ 1,052	$ 1,072	$ 516	$ 371	$ 488
—	—	$ 34	$ 42	$ 40	$ 40	$ 6	—
—	—	—	—	—	—	—	—
$ 6,068	$ 2,392	$ 964	$ 884	$ 843	$ 442	$ 435	$ 505
4.7%	2.4%	1.4%	1.4%	1.7%	1.1%	1.3%	2.1%
32.6%	29.0%	13.2%	12.9%	15.1%	9.6%	10.0%	12.5%
18.3%	12.2%	5.9%	6.9%	9.1%	5.9%	6.1%	7.7%
2,108	1,326	1,266	1,254	1,254	1,244	1,232	1,178
$ 2.82	$ 1.66	$ 0.59	$ 0.54	$ 0.58	$ 0.36	$ 0.36	$ 0.43
$ 3.24	$ 2.36	$ 1.13	$ 0.98	$ 0.77	$ 0.54	$ 0.64	$ 0.63
$ 9.29	$ 6.24	$ 4.70	$ 4.31	$ 3.98	$ 3.73	$ 3.68	$ 3.55
$ 15.50	$ 13.00	$ 4.94	$ 5.56	$ 5.50	$ 4.44	$ 4.06	$ 5.00
$ 10.00	$ 3.88	$ 3.25	$ 3.75	$ 3.94	$ 3.00	$ 3.13	$ 3.19
$ 2.35	$ 1.17	$ 0.49	$ 0.46	$ 0.53	$ 0.36	$ 0.36	$ 0.43
1.8:1	1.5:1	1.5:1	1.3:1	1.5:1	1.3:1	1.4:1	1.4:1
2.0:1	1.8:1	1.8:1	3.4:1	3.6:1	1.9:1	1.9:1	1.7:1
5.3:1	7.3:1	6.7:1	12.6:1	9.6:1	9.2:1	7.4:1	6.0:1
13.2:1	9.7:1	6.5:1	11.8:1	13.9:1	7.4:1	6.3:1	7.4:1
3.7:1	4.7:1	3.7:1	4.1:1	4.5:1	5.1:1	4.3:1	3.6:1
.78:1	.80:1	.76:1	.76:1	.78:1	.82:1	.79:1	.79:1
$ 1,094	$ 1,177	$ 825	$ 1,230	$ 437	$ 272	$ 392	$ 475
$ 794	$ 505	$ 468	$ 465	$ 365	$ 246	$ 243	$ 235
1,975	1,204	837	798	760	611	643	667
1,024	1,083	184	354	392	250	101	60
$ 50,096	$ 39,480	$ 27,524	$ 25,728	$ 17,659	$ 17,816	$ 14,091	$ 11,701
$ 28,545	$ 28,293	$ 18,339	$ 19,271	$ 11,523	$ 14,133	$ 10,385	$ 8,107
$ 21,551	$ 11,187	$ 9,185	$ 6,457	$ 6,136	$ 3,683	$ 3,706	$ 3,594
$ 9,869	$ 8,635	$ 6,875	$ 6,637	$ 3,584	$ 3,244	$ 3,260	$ 3,133
$ 11,170	$ 6,515	$ 5,282	$ 2,541	$ 2,292	$ 2,349	$ 2,399	$ 2,453
$ 23,027	$ 11,736	$ 9,268	$ 8,706	$ 8,287	$ 4,640	$ 4,525	$ 4,177
$ 35,698	$ 21,205	$ 18,087	$ 14,780	$ 10,993	$ 7,480	$ 7,480	$ 6,727
$ 64,243	$ 49,498	$ 36,426	$ 34,051	$ 22,516	$ 21,613	$ 17,865	$ 14,834

HUGH RUSSEL LIMITED
(Incorporated under the laws of Canada)
AND SUBSIDIARY COMPANIES

Consolidated Statement of Financial Position

AS AT DECEMBER 31, 1975
(with comparative figures as at December 31, 1974)

	1975	1974
	(Thousands of dollars)	
Current assets:		
Accounts receivable	**$ 40,049**	$ 46,374
Inventories	**60,672**	44,342
Prepaid expenses and other assets	**3,748**	1,281
Income taxes recoverable	**211**	—
	104,680	91,997
Current liabilities:		
Bank indebtedness (note 2)	**36,160**	19,842
Accounts payable and accrued liabilities	**28,597**	28,790
Income taxes payable	**—**	10,133
Long-term debt due within one year (note 6)	**434**	340
Contractual obligations due within one year (note 4)	**2,542**	3,853
	67,733	62,958
Working capital	**36,947**	29,039
Other assets:		
Fixed assets (note 3)	**20,330**	12,774
Long-term investments and advances	**899**	1,074
Premiums on acquisitions (notes 4 and 5)	**11,513**	9,626
	32,742	23,474
Capital employed	**$ 69,689**	$ 52,513
Represented by:		
Long-term debt (note 6)	**$ 21,738**	$ 11,665
Contractual obligations (note 4)	**5,551**	2,690
Deferred income taxes	**1,143**	368
	28,432	14,723
Shareholders' equity —		
Capital stock (note 7)	**10,108**	10,088
Contributed surplus	**79**	80
Retained earnings	**31,070**	27,622
	41,257	37,790
Capital employed	**$ 69,689**	$ 52,513

(see accompanying notes)

On behalf of the Board:

A. D. Russel, Director

J. P. Foster, Director

Consolidated Statement of Earnings and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
	(Thousands of dollars)	
Net Sales — metals	**$109,645**	$200,446
— power transmission	**13,757**	12,435
— home products	**61,564**	36,307
— engineering and manufacturing	**14,332**	13,612
Total sales	**199,298**	262,800
Cost of Sales	**153,986**	199,789
Gross profit	**45,312**	63,011
Operating expenses other than depreciation and interest	**29,813**	27,442
Earnings from operations before deducting the following:	**15,499**	35,569
Depreciation	**1,531**	1,228
Interest on short-term borrowings	**2,081**	1,371
Interest on long-term debt	**1,889**	1,026
Earnings before income taxes and amortization of premiums on acquisitions	**9,998**	31,944
Income taxes	**5,228**	16,281
Amortization of premiums on acquisitions	**16**	—
Net earnings for the year	**4,754**	15,663
Retained earnings, beginning of year	**27,622**	12,995
	32,376	28,658
Deduct:		
Dividends on common shares (including dividends on Class "B" shares and special tax thereon)	**1,301**	1,010
Dividends on preferred shares	**5**	26
Retained earnings, end of year	**$ 31,070**	$ 27,622
Earnings per common share	**$ 1.84**	$ 6.25
Fully diluted earnings per share	**$ 1.83**	$ 6.05

(see accompanying notes)

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

		1975	1974
		(Thousands of dollars)	
Working capital was obtained from:			
Operations —			
Net earnings for the year		$ 4,754	$ 15,663
Items not requiring working capital:			
Depreciation		1,531	1,228
Deferred income taxes		462	35
Amortization of premiums on acquisitions		16	—
		6,763	16,926
Common shares issued under stock option and employee share purchase plans		21	136
Sales of fixed assets		52	90
Additional contractual obligations		5,383	3,394
Issue of debentures		10,000	—
Other long-term debt issued		402	816
Reduction in investments		286	—
		22,907	21,362
Working capital was applied to:			
Purchase subsidiary companies		15,775	5,803
Less working capital acquired		7,241	2,668
		8,534	3,135
Consisting of —			
Fixed assets	$ 7,032		
Premiums on acquisitions	1,903		
Other assets	111		
Deferred income taxes	(313)		
Long-term debt	(199)		
	$ 8,534		
Reduce contractual obligations		2,522	1,908
Invest in other businesses		—	507
Increase premiums on businesses previously acquired		—	2,974
Purchase fixed assets		2,107	3,539
Pay dividends		1,306	1,036
Reduce long-term debt		528	617
Other		2	158
		14,999	13,874
Increase in working capital		7,908	7,488
Working capital, beginning of year		29,039	21,551
Working capital, end of year		$ 36,947	$ 29,039

(see accompanying notes)

Notes to Consolidated Financial Statements
December 31, 1975

1. Summary of accounting policies

(a) Basis of consolidation —

The consolidated financial statements include the accounts of the Company and all subsidiaries and include the earnings of subsidiaries since acquisition.

(b) Depreciation —

The Company and its subsidiaries provide for depreciation on a straight-line basis, except for the Home Products Distribution Division which uses the reducing balance method. The rates of depreciation are:

	Home Products Distribution Division	Other
Buildings	5% and 10%	2½% to 10%
Machinery and equipment	20%	10%

(c) Inventories —

Inventories are valued at the lower of cost and net realizable value.

(d) Foreign currencies —

All assets and liabilities in foreign currencies are translated into Canadian dollars at year-end rates of exchange, and income and expenses are translated at average rates prevailing during the year. The gains or losses resulting from these translations were not material.

(e) Premiums on acquisitions —

Premiums on acquisitions made prior to April 1, 1974 are carried in the accounts at cost, without amortization, unless the related business is sold or suffers a permanent decline in value. Premiums on subsequent acquisitions are being amortized by the straight-line method over forty years.

(f) Investments —

Investments in joint ventures are accounted for on the equity basis.

2. Bank indebtedness

Accounts receivable and inventories have been pledged against the bank indebtedness.

3. Fixed assets

	1975			1974
	(Thousands of dollars)			
	Cost	**Accumulated Depreciation**	**Net**	Net
Land	**$ 3,053**	**$ —**	**$ 3,053**	$ 1,790
Buildings	**14,510**	**2,695**	**11,815**	6,397
Machinery and equipment	**11,691**	**6,229**	**5,462**	4,587
	$ 29,254	**$ 8,924**	**$ 20,330**	$ 12,774

4. Commitments and contingencies

(a) Under the terms of the agreements whereby the Company acquired certain subsidiaries, the Company is committed to pay for the shares purchased in annual instalments. In some cases, the final purchase price will be determined by the earnings of the businesses acquired during the five years subsequent to acquisition. It is the Company's policy not to record such liabilities in the accounts until the earnings for each year have been determined. Full provision has been made for these liabilities based on earnings to the end of 1975. Based on forecast earnings, it is estimated that additional payments will amount to approximately $3,400,000.

(b) Payments are required on contractual obligations as follows:

1976	$ 2,542,000
1977	$ 1,850,000
1978	$ 850,000
1979	$ 1,100,000
1980	$ 1,350,000

(c) A subsidiary is a guarantor to the extent of $450,000 of loans of Springhill Homes & Supplies Limited, a joint venture.

(d) Lease commitments

The Company and its subsidiaries are committed to rental payments for premises on leases expiring in the years 1978 to 1987.

Payments over the next five years are:

1976	$ 687,000
1977	$ 658,000
1978	$ 626,000
1979	$ 560,000
1980	$ 422,000

5. Acquisitions

During the year, all the outstanding shares of the Inland Group of Companies, Lytle Engineering Specialties Ltd., and substantially all the outstanding shares of Lacroix Inc., were acquired. The net assets obtained in these acquisitions, which were accounted for as purchases, are as follows:

	Inland	Lytle	Lacroix
	(Thousands of dollars)		
Tangible assets, at book values	$ 2,069	$ 6,346	$ 24,475
Less liabilities, at book values	1,289	3,782	15,930
	780	2,564	8,545
Adjustments to reflect fair values of tangible assets	—	337	1,646
Premiums on acquisition	24	128	1,751
	$ 804	$ 3,029	$ 11,942
Consideration:			
Cash	$ 700	$ 2,000	$ 7,692
Contractual obligations	104	1,029	4,250
	$ 804	$ 3,029	$ 11,942

The earnings of Inland have been included in the accompanying consolidated statement of earnings and retained earnings from January 1, 1975, while the earnings of Lytle and Lacroix have been included from October 1, 1975.

6. Long-term debt	**1975**	1974
	(Thousands of dollars)	
Hugh Russel Limited		
Series A 6¼% debentures, maturing 1985	**$ 1,863**	$ 1,901
Series B 9½% debentures, maturing 1991	**2,790**	2,860
Series C 8½% debentures, maturing 1993	**4,800**	4,800
Series D 11% debentures, maturing 1995	**10,000**	—
Sumner Company Limited		
6½% General mortgage bonds, maturing 1984	**602**	645
Other long-term debt	**2,117**	1,799
Total long-term debt	**22,172**	12,005
Less principal payments due within one year included in current liabilities	**434**	340
Total	**$ 21,738**	$ 11,665

Other long-term debt consists mainly of mortgages with interest rates varying from 5% to 10¾%.

Amounts required to repay principal over the next five years are:

1976	$ 434,000
1977	$ 764,000
1978	$ 804,000
1979	$ 819,000
1980	$ 838,000

The Series A, Series B, Series C and Series D debentures are secured by a first mortgage on the shares and fixed assets of Russelsteel Ltd. (the successor to Russelsteel Limited and Russelsteel (Alberta) Limited) and by a first floating charge on the remaining assets of the Company and Russelsteel Ltd.

The trust deed under which the debentures were issued calls for progressive annual sinking fund payments to retire $1,500,000 Series A debentures by 1984, $2,250,000 Series B by 1990, $3,750,000 Series C by 1992 and $8,800,000 Series D by 1994. Under certain conditions the terms of the trust deed prohibit the Company from paying dividends other than cumulative preferred dividends or stock dividends. In addition, under the terms of the supplemental trust deeds relating to Series B, C, and D debentures, certain general conditions are imposed. All of these requirements have been met.

7. Capital stock

(a) Preferred shares —

(i) Authorized:

The authorized preferred shares of the Company consist of 489,950 first preferred shares, $20.00 par value, of which 165,000 have been designated as 6½% cumulative, redeemable, convertible first preferred shares, Series "A". These shares are redeemable by the Company at $24.00 and are convertible at the holder's option into Class "A" or Class "B" common shares on the basis of four common shares for each preferred share.

(ii) Issued and outstanding:	Number of shares
First preferred shares, Series "A" —	
At December 31, 1974	12,040
Minus: shares converted to common	(11,990)
shares redeemed	(50)
At December 31, 1975	—

(b) Common shares —

(i) Authorized:

The authorized common shares of the Company consist of 8,000,000 Class "A" shares of no par value, and 8,000,000 Class "B" shares of no par value. These shares are inter-convertible on a share-for-share basis at the holder's option.

(ii) Issued and outstanding:	Number of shares	
	Class "A"	Class "B"
At December 31, 1974	1,864,816	674,657
Add:		
Issued to employees under the provisions of the employees' share purchase plan for cash of $20,713	4,289	
Issued upon exercise of stock options for cash of $486	160	
Issued upon conversion of preferred shares	43,160	4,800
Issued upon conversion of Class "A" to Class "B" and vice versa	41,000	78,903
Minus conversions of Class "B" to Class "A" and vice versa	(78,903)	(41,000)
At December 31, 1975	1,874,522	717,360

(c) Shares reserved —

Authorized unissued common shares are reserved for possible future issue as follows:

	Number of shares	
	Class "A"	Class "B"
For conversion to Class "A" and to Class "B"	717,360	1,874,522
For options granted to employees	2,900	
For additional options	2,884	
For the employees' share purchase plan	27,866	
Total shares reserved	751,010	1,874,522

8. Stock options

Options on 2,900 shares have been granted to employees to purchase Class "A" shares at $10.80 per share. 1,000 of these shares are under option to officers. These options are exercisable in instalments up to 1983.

9. Senior executive share purchase plan

The Company is authorized to provide loans to a trustee for the purchase of shares of the Company for the benefit of senior officers (who may be directors) specified by the Board of Directors. At December 31, 1975, the Company had advanced a total of $548,000 to the trustee pursuant to this plan.

10. Remuneration of directors and officers

The Company has nine directors and ten officers, six of whom are directors. For the year ended December 31, 1975, the following amounts are charged in the consolidated statement of earnings for direct remuneration and retirement benefits:

Directors, as directors	$ 5,000
Officers, as officers	$952,000

11. Anti-inflation legislation

The Company is subject to mandatory compliance with the controls on prices, profit margins, employee compensation and shareholder dividends imposed by the Anti-inflation Act which became effective October 14, 1975. The effect of the Act and its Regulations on prices, profit margins and employee compensation is not yet clear owing to uncertainties as to interpretation of the Regulations and the need to develop appropriate data from the Company's records. Dividends to the Company's common shareholders during the year ending October 13, 1976 may not exceed $1.51 per share. The current annual dividend rate is $0.52 per share.

12. Event subsequent to year-end

The Company, has agreed to acquire all of the shares of Walter Woods Limited for $3,400,000. Of this amount, $2,267,000 was payable in cash with the balance payable in instalments over five years.

Auditors' Report

Clarkson, Gordon & Co.

Chartered Accountants

To the Shareholders of
Hugh Russel Limited:

We have examined the consolidated statement of financial position of Hugh Russel Limited as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For Hugh Russel Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants.

Toronto, Canada.
February 16, 1976.

Corporate Directory

Hugh Russel Limited
Head Office:
8 King Street East
Toronto, Ontario M5C 1B5

Registrar and Transfer Agent

The Royal Trust Company

General Counsel

J. D. Reilly, Q.C.

Auditors

Clarkson, Gordon & Co.

Stock Exchanges

Montreal and Toronto

Board of Directors

A. D. Russel
Toronto, Ontario
Chairman of the Board, Hugh Russel Limited

J. P. Foster
Toronto, Ontario
President, Hugh Russel Limited

M. D. Glenn
Montreal, Quebec
President, Metals Distribution Division, Hugh Russel Limited

R. Hartog
Perkinsfield, Ontario
President, Waltec Enterprises Ltd.

K. D. Mooney
Islington, Ontario
President, Valley Camp Limited

J. D. Reilly, Q.C.
Toronto, Ontario
Partner, Hill, Friend & Reilly

G. D. Shearer, C.A.
Toronto, Ontario
Vice-President Finance, Russelsteel Ltd.

G. T. Urquhart
Moncton, N.B.
President, Home Products Distribution Division, Hugh Russel Limited

J. W. Vingoe
Islington, Ontario
Senior Vice-President, Massey Ferguson Industries Ltd.

Corporate Officers

A. D. Russel
Chairman and Chief Executive Officer

J. P. Foster
President

M. D. Glenn
Vice-President

J. M. O'Sullivan
Vice-President

J. D. Reilly, Q.C.
Secretary

J. S. Smith, C.G.A.
Treasurer

G. T. Urquhart
Vice-President

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